

Required Report - public distribution

**Date:** 11/18/2003

**GAIN Report Number:** VE3013

## Venezuela

### Dairy and Products

### Annual

### 2003

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**Report Highlights:**

Venezuelan milk production is forecast to drop in 2003 due to severe economic recession, as well as the increasing instability in the countryside and weak demand. In addition, the Venezuelan Government put in place a set of price controls and exchange control this year, which reduced trade. For 2004, both production and imports are forecast to recover.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Caracas [VE1]  
[VE]

## Production

Production and consumption of milk in Venezuela continue to trend down due to both the poor economic situation and the increasing insecurity in the countryside that negatively affect production. Venezuela remains a milk deficit country, and the events of 2003 aggravated that situation. The year began in the midst of a two month long national strike, which halted fuel and fertilizer supplies and disrupted dairy as well as other agricultural production. Venezuela's GDP dropped by 29% in the first quarter of the year and while it has recovered some the consensus forecast is for a GDP drop in the order of 11% for the year. In February, the Government imposed price controls for food and other basic consumption items, and in some instances, such as milk, prices have been set below production costs.

For the dairy industry, production is forecast down significantly in 2003 due to the economic factors mentioned, as well as increasing instability in the countryside. Private land ownership has been under attack as numerous ranches have been invaded by poor peasants who believe that the new Land Law will grant them full property rights of the occupied land. In some cases this has discouraged investment in existing farms, though in other cases farmers say they are working their land more intensively to avoid the possibility of invasions. Finally, 2003 saw increased outbreaks of foot and mouth disease in Venezuela, in part due to disruptions of vaccinations last December and January.

Post is forecasting a slight recovery of dry milk production for 2004 assuming that the country will continue a modest economic recovery, that the massive work stoppage of 2003 is not repeated, and that the problem with invasions of ranches remains limited.

## Consumption

The drop in disposable income due to the current economic recession is one of the most severe in Venezuela's history. Unemployment has reached historic levels of 21% and much of the rest of the labor force is underemployed. With more people falling below the poverty line every day, food consumption, even of basic products such as milk, is expected to drop this year. Post is forecasting around a 5% drop in dry milk consumption in 2003 with consumption recovering in 2004.

Price controls have probably kept milk consumption from falling even more, but are proving to be both a disincentive to local milk production and are causing sporadic shortages of product in the market. (See VE3008 for more information on price controls.) The domestic control price for whole dry milk was set at 5,000 Bolivar's (\$3.12) per kilo since February. However, the current average market price for dry milk has been varying between \$3.49 and \$3.75 to date.

## Trade

In addition to price controls, the GOV established strict foreign exchange controls in January, which has had a major effect on trade. Now, in addition to all the previous paperwork, importers need to try to get access to dollars at the official exchange rate of Bs. 1600 to the dollar instead of the black market rate of around Bs. 2,500 to Bs. 3,000 to the dollar. The exchange control commission, CADIVI, was initially very slow in beginning operations and the first significant dollars for imports at the official rate were not issued until May.

Due, in part, to the difficulties of the private sector in getting access to dollars, the Government of Venezuela has emerged as a major importer of several food products, including dry milk powder. Government imports are all contracted by the "Corporación de Abastecimiento y Servicios Agrícolas, CASA," a recently revitalized government-purchasing agency.

Using its undisputed access to foreign currency, CASA has been importing increasing quantities of milk and setting up its own distribution channels to sell basic staples at subsidized prices.

Sources indicate that the government has imported at least 7,000 MT of dry whole milk powder out of a total import plan of 34,000 tons for 2003. Product has come in sacks and in 1 kilo packages.

Imports have been sourced from the traditional partners with New Zealand remaining as the main source. Taking advantage of its status as a member of the Andean Community, Colombia holds a very strong second place. Dry milk is a product tied to the Milk Band of the Andean Price Band Tariff System. Dry milk imports from non-Andean countries are subject to 20 percent ad valorem duty, which is the common external tariff accorded by the Andean Community, and a variable duty (DEV) determined by the Andean price band. This system established an annual ceiling and floor import price on April 1 of each year, based on monthly historical averages of the last five years. Variable duties are modified every 15 days depending on the deviation of international market prices, with respect to floor and ceiling prices.

Since last year the Government has been announcing the placement of commercial safeguards against Colombia on the grounds that it is transshipping products from New Zealand, Netherlands and Uruguay, but nothing has been done so far.

Estimating trade flows has becoming more difficult as discrepancies between importer and exporter data have increased. The trade table figures in this report reflect official GOV data, and provide the widest information on country allocation. But exporter data from New Zealand and Colombia indicate much higher trade levels than the GOV data. Our estimates of 78,000 tons of imports in 2002 and 75,000 tons in 2003 reflect our analysis of various trade data sources and local industry information.

For 2003, imports are expected to drop due to the worsening economic situation, loss of purchasing power, and governmental policies limiting the access to imports. Obtaining import permits and licenses continues to be a major problem. The criteria used to distribute the licenses for the dairy TRQ are non-transparent and extremely discretionary. The same can be said regarding the granting of licenses when demand exceeds the WTO tariff rate quota (TRQ), which is fixed for dry whole milk (0402.21) at 73,822 tons.

Venezuela Dry Whole Milk Prices Bolivars/ Kg.			
	2001	2002	2003
January	3,997.76	4,277.31	5,671.21
February	4,163.93	4,342.81	6,007.10
March	4,176.12	4,652.72	5,627.11
April	4,186.31	5,011.41	5,611.66
May	4,195.71	5,111.35	5,634.96
June	4,196.84	5,138.53	5,631.55
July	4,226.38	5,182.77	5,614.50
August	4,266.19	5,345.33	5,591.06
September	4,290.32	5,438.84	5,621.87
October	4,300.94	5,442.34	
November	4,269.26	5,467.65	
December	4,250.12	5,445.31	

Source: Venezuelan Statistics Institute, INE

PSD Table							
Country	Venezuela						
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Beginning Stocks	41	41	35	39	0	33	(1000 MT)
Production	29	30	28	24	0	26	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	75	78	85	75	0	85	(1000 MT)
TOTAL Imports	75	78	85	75	0	85	(1000 MT)
TOTAL SUPPLY	145	149	148	138	0	144	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Dom. Consumption	110	110	115	105	0	115	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	110	110	115	105	0	115	(1000 MT)
TOTAL Use	110	110	115	105	0	115	(1000 MT)
Ending Stocks	35	39	33	33	0	29	(1000 MT)
TOTAL DISTRIBUTION	145	149	148	138	0	144	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

# Import Trade Matrix

**Country** Venezuela

**Commodity** Dairy, Dry Whole Milk Powder

Time Period		Units:	TMT
Imports for:	2001		2002
U.S.	1,392	U.S.	580
Others		Others	
New Zealand	20,016		13,332
Colombia	4,869		12,233
Netherlands	2,905		3,574
U.K.	3,932		2,023
Belgium	2,100		1,481
Ireland	3,711		973
Uruguay	3,132		1,043
Chile	400		101
France	39		585
Total for Others	41,104.00		35,345
Others not Listed	3,684		8,526
Grand Total	46,180.00		44,451.00

# Prices Table

**Country** Venezuela

**Commodity** Dairy, Dry Whole Milk Powder

Prices in \$ per uom Kg.

Year	2002	2003	% Change
Jan	6	3	-44%
Feb	5	4	-24%
Mar	5	4	-28%
Apr	6	4	-39%
May	5	4	-33%
Jun	4	4	-18%
Jul	4	4	-10%
Aug	4	3	-10%
Sep	4		-100%
Oct	4		-100%
Nov	4		-100%
Dec	3		-100%

Exchange Rate 1,600 Local Currency/US \$

Date of Quote 10/10/2003 MM/DD/YYYY